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DEPARTMENT OF STATE

Memorandum of Conversation

DATE: March 9, 1961

SUBJECT: Volta River Project: VALCO Financing Negotiations

PARTICIPANTS:

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Participants

Chad Calhoun, Vice President, Kaiser Industries
Lloyd Cutler, Attorney for the Aluminum companies
Ronald Sullivan, Attorney, Sullivan & Cromwell
Sam Stern, Attorney, Sullivan & Cromwell

State

Abram Chayes, Legal Adviser
Peyton Kerr, Deputy Assistant Secretary for Economic Affairs
Charles Warden, Chief, Investment Guaranties Division, ICA
Dean Lewis, Legal Staff, ICA
Glenn McLaughlin, Eximbank Staff
George Kenney, OFD/ED

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DEPARTMENT OF STATE 8457. 2614/3-96

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State: Abram Chayes, Legal Adviser
Peyton Kerr, Deputy Assistant Secretary for Economic Affairs
Charles Warden, Chief, Investment Guaranties Division, ICA
Dean Lewis, Legal Staff, ICA
COPIES TO: Glenn McLaughlin, Eximbank Staff
George Kenney, OFD/ED

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The meeting opened with a resume and discussion of a paper circulated by the companies prior to the session (copy attached). The purpose of the paper was to explain in detail the nature and significance of the risks being assumed by the equity investors in the VALCO smelter. The principal argument centered on the possibility and the cost of shutting down aluminum facilities elsewhere while maintaining higher cost operations in Ghana. This discussion was inconclusive concerning the question of the relative costs involved in shutting down facilities in Ghana as opposed to domestic operations. However, the value assigned by the companies to the risk being taken in this regard appeared to be based on an extreme assumption of a major disaster in the marketing of aluminum.

Mr. Chayes presented a counter-offer to the proposals made by the companies on March 7. The offer was in four parts as follows:

1. The U.S. will agree to a total equity investment of \$32 million, representing a concession of \$8 million from the Government's previous position.

2. With regard to Government lending, we believe at least one-half of the debt capital should be obtained from private sources. Under this arrangement, the Government offer to lend one-half still stands, but now amounts to \$48 million. On the private loans, the Government offers a repayment guarantee of 75 per cent excluding the risk of non-performance by the companies.

3. On the

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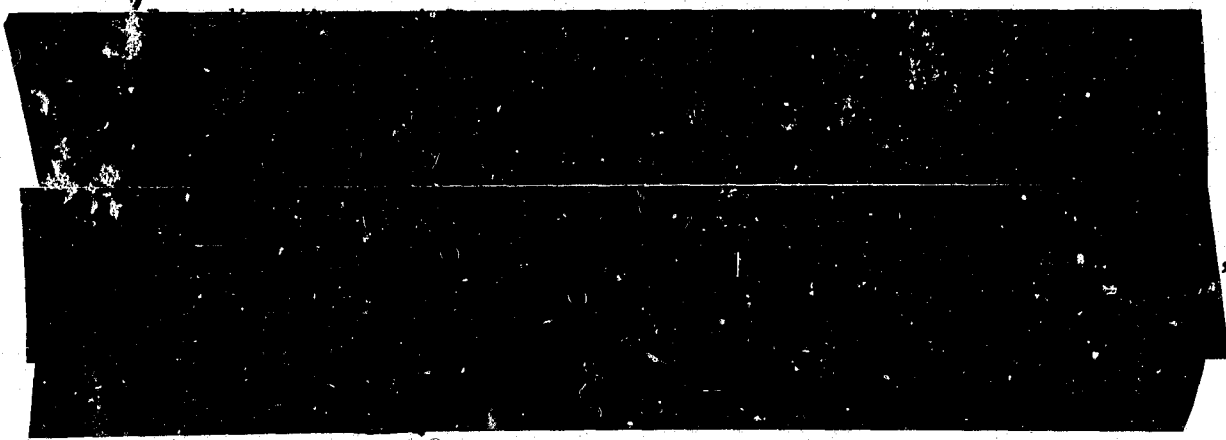
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3. On the equity investment, a FRIA-type guarantee against actions by the Ghana Government plus coverage of the risk of insurrection or civil disorder not connected with acts of the Ghana Government and protection for the companies against loss due to economic sanctions which might be taken by the U.S. The presumed sources of this guarantee is DLF because it is more than FRIA and the Eximbank cannot cover equity.



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In the ensuing discussion, Mr. Chayes mentioned two principal caveats in the above offer. It should be clear that regarding both loans and re-payment guarantees the Export-Import Bank commitment can cover only the cost of U.S. procurement. This would amount to a total of \$84 million (48 plus 3/4 of 48). The companies agreed this would be no hardship because their costs had been calculated on this basis, and of course they knew that an Exim loan of \$96 million which they had requested would have to be for U.S. procurement. The second point was that the above offer had not been fully cleared within the U.S. Government and was still subject to the concurrence of some of the agencies involved.



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Mr. Cutler

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Mr. Cutler reiterated his argument of March 7 that a definition of excludable risks would be a better procedure than the cumbersome ICA method of enumerating the risks to be covered. It was agreed that the source of guaranty funds was a problem for the U.S. Mr. Chayes pointed out that the Government had obligations to the Congress, the public, and other borrowers to show that measurable and foreseeable risks had been taken into account in writing guaranty contracts. It would be untenable to have to argue that the guaranties had been given against unknown risks, especially if private enterprise obtains valuable assets as a result.

Mr. Cutler asked what kind of guarantee was envisaged for the uncovered 25 per cent of the private money. Mr. Chayes indicated we expected the companies to assume this obligation, but Mr. Cutler said he did not see how the companies would guarantee repayment including political risks, and he cited the FRIA case as a precedent. Mr. Chayes said our position was not inflexible, and we would be willing to examine whatever proposals the companies might wish to make on this point.

Mr. Cutler's final question pertained to the term of the equity guaranty. This question was left for further discussion, but the companies were reminded of their statement that they would get their capital out in 15 years.

The next session will be on Friday, March 10 at 4 p.m. Mr. George Woods will be present.

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